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SIPDIS

SENSITIVE, SIPDIS

DEPT FOR SCA FRONT OFFICE (DAS GASTRIGHT) AND SCA/A

DEPT FOR ISN/ECC:JCOLLINS

DEPT PASS AID/ANE, USTR, AND OMB:PCALBOS

TREASURY FOR LMCDONALD, JCIORCIARI, AND ABAUKOL

NSC FOR AHARRIMAN

E.O. 12958:N/A

TAGS: EFIN ECON MASS MARR PGOV AF

SUBJECT: DEPUTY FINANCE MINISTER SHAHRANI - BUDGET ON TRACK BUT
POLICE EXPANSION CREATING FISCAL WORRIES

REFS: A) KABUL 5427, B) KABUL 5373, C) KABUL 4916

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1.(SBU) SUMMARY: Deputy Finance Minister Wahidullah Shahrani is concerned that, with revenue not growing as fast as expected and pressure to expand expenditures mounting, the rapid expansion of both the ANA and the police (Afghan National Police and Auxiliary Police) could put the GOA in deficit and in breach of its IMF commitments. This could jeopardize the GOA's push for a HIPC decision that would lead to complete debt forgiveness for Afghanistan. Yet, as a policy matter, we cannot tolerate underpaying Afghan security forces in the midst of a war. To keep pressure off the GOA budget, Shahrani welcomed the donor decision to expand the Law and Order Trust Fund for Afghanistan (LOTFA) from its current limit of \$75 million. While Shahrani requested an MOU on police pay reform similar to that reached on ANA (Afghan National Army) pay signed in September, this does not appear to be the right solution given the manner in which ANP salaries are paid through the Law and Order Trust Fund Afghanistan (LOTFA). END SUMMARY.

2.(SBU) In an October 30 meeting with Econ Counselor and Deputy Econ Counselor, Shahrani expressed concern about prospects for achieving the GOA's budget sustainability goals. In response to ECON Counselor's question, Shahrani acknowledged that customs revenue is not growing (REF C). Overall, he continued, the MOF has met IMF revenue collection benchmarks, but total revenue is growing at a lower rate than the economy.

3.(SBU) Meanwhile, fiscal pressures are mounting, he lamented. The government just signed a \$27-\$30 million contract for diesel fuel to keep power plants running through the end of the fiscal year (March 20, 2007). The contract, Shahrani noted, provided flexibility to cover one month of diesel purchases into the next fiscal year should parliament fail to pass next year's budget in time. Another major drain on the budget, he noted, is the approximately 181,000 teachers on the Ministry of Education's payroll.

4.(SBU) Shahrani expressed serious concern with projections that the ANA would double in size to 70,000 within two years. Given current revenue growth rates, such an expansion would put huge pressure on the recurrent budget. In addition, he expressed frustration with MOD and CSTC-A's failure to provide any data showing actual recruitment and retention rates. This, he stressed, is essential for budget forecasting. (COMMENT: In the interest of increasing GOA capacity, MOD should take the lead in briefing MOF on manpower issues; however, Embassy and CSTC-A will encourage MOD to coordinate more closely with MOF. END COMMENT.)

5.(SBU) An even larger problem, he continued, is finding a way to fund police pay reform. Increasing the ANP to 82,000, adding 11,000 Auxiliary Police, and increasing police pay rates without expanding LOTFA from its current level would put the GOA in deficit and in breach of its IMF commitments. Shahrani expressed gratitude that the LOTFA Steering Committee and donors had recently agreed to increase the maximum amount of the LOTFA to meet this year's needs. However, Shahrani also suggested that he would like an MOU for police pay similar to the MOU between MOD and CSTC-A covering the ANA pay reform as another mechanism for limiting the impact of these changes on the GOA's fragile recurrent budget situation.

6.(SBU) COMMENT: While the decision to raise the ANP force to 82,000 has not yet been formally proposed to the LOTFA Steering Committee, much less agreed by all member nations, the rumor that it may be considered has generated this MOF concern. A strong policy argument can be made for more ANP forces. How to pay them will have to be factored into the discussion, but it is assumed that over the near term the international community will continue to bear the full burden of ANP salaries, whatever the size of the force. Over the longer term, Shahrani's concern about GOA ability to pay is reasonable since the IC would expect to eventually hand this responsibility to the GOA (as has been done with ANA). The auxiliary police are on one-year contracts and are paid through

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LOTFA and equipped by the U.S., so that transitional force should not be an additional burden on MOF resources by the time it takes over the burden of paying ANP salaries. With regard to an MOU for police, the bilateral U.S.-GOA MOU covering ANA would not be an acceptable model since the ANP are paid through the international mechanism of LOTFA; it is unclear what kind of agreement could be reached with all the LOTFA donors that would meet the MOF's needs.

7.(SBU) COMMENT (CONTINUED): The Finance Ministry is clearly trying to do its best to balance hugely important competing priorities. The GOA's credibility with the Afghan people depends as much on its ability to deliver basic services - power, water, health, and education - as it does its ability to provide security. Indeed, given the overwhelming presence of coalition military forces in the country, the GOA's credibility may depend more on its provision of basic human needs to the people. Making sure the LOTFA has sufficient funds to pay salaries for ANP patrolmen over the short-to medium-term, as well as limiting the impact of increased security expenditure requirements on the recurrent budget is critical, especially as the GOA moves towards a HIPC decision point and debt forgiveness. END COMMENT.